

## Message Text

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ACTION EB-07

INFO OCT-01 EA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-03 PA-01 PRS-01 USIA-06

/086 W

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R 180758Z MAR 75

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 9294

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

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E.O. 11652: N/A

TAGS: ENRG MY

SUBJECT: PETRONAS MAY OPT FOR SERVICE CONTRACT AGREEMENTS  
WITH OIL EXPLORATION COMPANIES

REF: KUALA LUMPUR A-30 AND PREVIOUS

1. SUMMARY. TOP MANAGEMENT PETRONAS DEBATING WHETHER  
MALAYSIA SHOULD HAVE "MIDDLE-EAST" TYPE SERVICE CONTRACT  
AGREEMENTS WITH OIL EXPLORATION COMPANIES. AT PRESENT  
NO DECISION HAS BEEN REACHED. END SUMMARY.

2. SENIOR OFFICIAL PETRONAS TOLD EMBOFF THAT INTERNAL  
DEBATE RAGING WITHIN TOP MANAGEMENT PETRONAS OVER TYPE OF  
AGREEMENT TO NEGOTIATE WITH OIL EXPLORATION COMPANIES IN  
MALAYSIA, BOTH EXISTING FIRMS AND NEW FIRMS. ONE GROUP  
OFFICIALS ARGUES MALAYSIA TO DATE HAS BEEN ONE STEP  
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BEHIND ENLIGHTENED OIL PRODUCING COUNTRIES (I.E.,

MIDDLE-EAST PRODUCERS) IN ARRANGING WITH OIL EXPLORATION COMPANIES.

3. WHEN MALAYSIAN CONCESSION AREAS AWARDED SEVERAL YEARS AGO, PETRONAS STATED THAT GOM FOLLOWED ADVICE OF WALTER LEVY, OIL CONSULTANT HIRED TO ADVISE GOM, AND SIGNED ROYALTY CONCESSION AGREEMENTS WITH OIL EXPLORATION COMPANIES. ACCORDING PETRONAS OFFICIAL, THIS WAS BAD DECISION AS GOM SHOULD HAVE OPTED FOR PRODUCTION-SHARING ARRANGEMENT.

4. PETRONAS AGAIN AT CRITICAL DECISION POINT BECAUSE AGREEMENTS WITH OIL EXPLORATION COMPANIES NOW IN MALAYSIA WILL BE RENEGOTIATED UNDER PROVISIONS PETROLEUM DEVELOPMENT ACT 1974. PETRONAS HAS FRESH OPPORTUNITY NOT REPEAT PAST ERRORS. ONE GROUP PETRONAS OFFICIALS PUSHING HARD FOR "MIDDLE-EAST" ARRANGEMENT WHEREBY PETRONAS WOULD RETAIN OIL CONCESSION RIGHTS AND OIL EXPLORATION COMPANIES WOULD PERFORM EXPLORATION AND PRODUCTION ACTIVITIES UNDER SERVICE CONTRACT TO PETRONAS. THUS, OIL EXPLORATION COMPANIES WOULD BE CONTRACTORS TO PETRONAS.

5. PETRONAS REALIZES THAT SUCH ARRANGEMENTS SHOULD NOT BE SO RESTRICTIVE AS TO SCARE OFF OIL EXPLORATION COMPANIES FROM MALAYSIA. PETRONAS MAY DECIDE HAVE SERVICE CONTRACT ARRANGEMENT FOR EXISTING OIL PRODUCING CONCESSION AREAS AND PRODUCTION-SHARING AGREEMENTS FOR AREAS WITH EITHER LESS OR UNKNOWN POTENTIAL.

6. AS OF NOW NOTHING HAS BEEN RESOLVED AND TYPES OF ARRANGEMENT ARE STILL OPEN QUESTION. PETRONAS OFFICIAL SAYS MATTER WILL BE THOROUGHLY STUDIED BEFORE DECISION MADE.

7. COMMENT. THIS IS FIRST INDICATION EMBASSY HAS RECEIVED THAT PETRONAS MAY OPT FOR SERVICE-TYPE CONTRACTS WITH OIL EXPLORATION COMPANIES. PRESUMABLY SUCH ARRANGEMENT WOULD APPLY TO SHELL, EXXON, AND CONOCO, WHICH COMPANIES EITHER IN PRODUCTION OR HAVE HAD SOME SUCCESS LIMITED OFFICIAL USE

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IN EXPLORATION IN MALAYSIA, ALTHOUGH IN CASE SHELL, SOME SPECIAL ARRANGEMENT WOULD PROBABLY BE MADE TO REFLECT ITS SPECIAL HISTORICAL POSITION. UNDER PROVISION PETROLEUM DEVELOPMENT ACT 1974 NEW AGREEMENTS SHOULD BE NEGOTIATED BETWEEN PETRONAS AND EXISTING OIL EXPLORATION COMPANIES WITHIN SIX MONTHS FROM OCTOBER 1, 1974 (DATE PETRONAS BEGAN OPERATIONS), I.E., APRIL 1, 1975. IT NOW SEEMS CLEAR THAT THIS TARGET DATE WILL NOT BE MET, BUT PETRONAS

DOES NOT SEE THIS AS SUBSTANTIVE PROBLEM AND CORRECTLY  
PREFERS TO TAKE TIME NECESSARY TO THOROUGHLY THINK  
THROUGH ALL ASPECTS BEFORE REACHING DECISION.  
UNDERHILL

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM INDUSTRY, POLICIES, GOVERNMENT CORPORATIONS, SERVICE CONTRACTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 18 MAR 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975KUALA01420  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750094-0007  
**From:** KUALA LUMPUR  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Line Count:** 119  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 KUALA LUMPUR A-30  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <14 JUL 2003 by BoyleJA>; APPROVED <15 JUL 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PETRONAS MAY OPT FOR SERVICE CONTRACT AGREEMENTS WITH OIL EXPLORATION COMPANIES  
**TAGS:** ENRG, MY, PETRONAS  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006